

U.S. BUSINESS OPPORTUNITY

PROAERO SMALL AIRPORTS NETWORK PROGRAM EXPANSION PROJECT

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Promoting U.S. Exports, Supporting U.S. Jobs

Agencies across the U.S. government are partnering to help U.S. companies connect with buyers worldwide. Through a variety of resources, federal agencies can provide U.S. firms with the information and tools they need to compete for foreign contracts. From trade advocacy and export promotion efforts to matchmaker services and promoting the availability of export credits, federal agencies can support U.S. companies in selling their goods and services to the 95% of the world's consumers, who are located outside of the United States, by helping to create opportunities and to level the playing field.

For more information on this project, possible financing options and export opportunities in Brazil, contact:

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Overview

The PROAERO program was founded in 1990 to promote safety standards and economic development through an integrated network of paved and unpaved airports in Minas Gerais. The objective is to establish greater intrastate and interstate connectivity.

The program successfully implemented a large number of airport improvements at 24 airports throughout the State of Minas Gerais from 2003 to 2009.

Some of the benefits of the PROAERO investments include:

- Construction of three new airports
- Construction of additional paved runways
- Airports upgraded from day operations to night operations
- Improvements at numerous airports made in order to meet International Civil Aviation Organization (ICAO) standards
- Improved aircraft fire fighting and rescue facilities
- Improved road access to numerous airports
- Improved airport safety
- PROAERO Phase II is currently underway
- PROAERO Phase III is scheduled to begin 2016

Project Description

The PROAREO small airports network program is designed to maximize economic development throughout Minas Gerais. The program:

- Integrates business and airline attraction with airport development and local economic development
- Holds local municipalities accountable for their economic development initiatives and obligations and for increasing airport use and airport revenues
- Creates new jobs and opportunities for local population centers that may not exist today
- Provides for social service airports as required by local needs

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The PROAERO II program goals are summarized as follows:

- Initiate immediate discussions with federal authorities in 2011 regarding regulatory changes and agreements that are needed to allow the State of Minas Gerais to manage, operate and develop the state's airports
- Improve the local airport management and operations of the PROAERO airports through increased training and communication
- Establish an effective and efficient management oversight and management support system at State level
- Increase local economic development and airport utilization in conjunction with airport development in order to increase the State's return on investment associated with airport improvements
- Develop an airport management and operations training program
- Develop dedicated revenue stream to fund ongoing and future airport improvements in the State (once federal and State regulatory changes have been made)
- Develop a comprehensive airport database and financial database for the PROAERO airports
- Incorporate both strategic planning and regional economic planning into the prioritization of future airport investments in order to maximize the return on investment for the State of Minas Gerais
- Develop a program to attract additional regional airline service to targeted airports throughout the State of Minas Gerais
- Develop a simplified planning system for a sound investment decision making process. This includes the creation of simplified cost-benefit analysis systems for capital investments in infrastructure and the creation and regularly updated master plans for each airport
- Strengthen agreements between the State and Federal Government to give the State Government the legal authority for airport management oversight, airport economic development, and airport capital investment decisions
- Strengthen agreements between the State and municipalities to clearly delineate the roles and responsibilities of the municipalities and give increased local responsibility for ongoing airport management duties
- Promote private-sector involvement in the management, operation and development of major PROAERO airports. This could include future contract management of airports and private sector investment in airport facilities through Build-Operate-Transfer (BOT) type scheme
- Develop a long-term state strategy and plan for creating a major regional airline hub at Tancredo Neves International Airport. This hub would provide increased connectivity and critical mass for the continued growth of regional airline operations throughout Minas Gerais and for connections through Tancredo Neves International Airport to other domestic and international airports. The critical mass created by such an integrated airport system will result in even higher growth of regional passenger traffic in Minas Gerais
- Develop a long-term strategy concurrently with the development of Tancredo Neves International Airport expansion in order to focus development of Pampulha Airport for general aviation, corporate (private) aviation, and tourism

The future vision of the PROAERO project includes:

1. Improving the economic potential of the airport and region
2. Promoting increased use of the airport and the airport revenues
3. Enhancing integration of local economic development with airport expansion
4. Increasing tourism that the airports can help create
5. Optimization of the Minas Gerais regional airport network by focusing on developing a major regional airline hub at Tancredo Neves airport (TNIA) and expanding regional airport operations throughout the state

Long-term plans include strategic planning, regional airline growth and an airport sector development program integrated with state economic development.

The goal of the USTDA grant awarded for the expansion of the PROAERO Small Airports Network Program is to accommodate greater intrastate and interstate civil aviation interconnection. The grant will further this objective by providing the Secretariat with the basis for future capital expenditures, equipment procurement specifications, financing options, and program implementation.

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Status and Implementation

The PROAERO program successfully implemented a large number of airport improvements at 24 airports throughout the State of Minas Gerais over the period 2003-2009. Some of the benefits of the PROAERO investments during this time include:

- Construction of three new airports
- Construction of additional paved runways
- Airports upgraded from day operations to night operations
- Improvements at numerous airports made in order to meet ICAO standards
- Improved aircraft fire fighting and rescue facilities
- Improved road access to numerous airports
- Improved airport safety

As a result of these airport improvements, average travel time to the nearest airport for many towns and cities has been significantly reduced and there is enhanced airline service due to the new passenger terminals and other airport improvements. Also, there is now potential for increased economic development and job creation at some of the PROAERO airports that have significantly increased capacity and improved facilities such as São João del Rei's new terminal building and an aircraft parking apron.

Project Cost and Financing

The cost of the PROAERO project from 2006-2010 was \$557.5 million. The cost of on-going or recently completed projects for 2009-2010 totaled \$100 million. Funding for PROAERO comes from Federal and State monies although, over the past seven years, over 80% of the funding for airport improvements has been from the State of Minas Gerais.

Funding decisions are made on a year-by-year basis through PROAERO staff recommendations. As such, there is no secure long-term funding stream or funding mechanism for future PROAERO investments. There is no dedicated funding stream for investment in smaller, regional airports. The funding comes out of the general State and (to a smaller degree) federal budgets and is therefore subject to annual appropriations at both of these governmental levels. As such, it is more difficult in this scenario to plan for the longer-term capital investments throughout the State of Minas Gerais as the funding is subject to annual reviews and approvals.

Future goals for funding of the PROAERO program include:

- Creating a State Aviation Funding Program from fuel taxes and other charges at larger commercial service airports and at airports with significant fuel sales
- Implementing the policy, legal, and regulating changes within the federal and state governments to permit different forms of airport's infrastructure financing (private sector, international finance community, international donors and development funds, etc.) besides the current federal and state government financing
- Develop a simplified management information system for a sound decision making process. This includes the creation of simplified financial statements and management and operating under an annual budget system
- Permit tariff setting at state level and decentralize revenue collection

It is important to emphasize that this future vision for PROAERO will require significantly increased support, participation and responsibilities on behalf of the local municipalities and eventually from the private sector.

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U.S. Competitiveness and Export Potential

The air transport market in Brazil has shown important development during the last decade. In terms of Passenger Revenue Kilometers (PRK), the market grew from 45.1 billion PRK in 2000 to 77.3 billion PRK in 2009. This represents an annual average growth of 6.2% over this time period.

The domestic market grew from 21.6 billion PRK in 2000 to 56.3 billion PRK in 2009. This represents an annual average growth of 11.2% over this time period. This high growth is consistent with the development of other domestic aviation sectors in countries with very large territories like Canada, China, India, and the United States, where the average traveling distances are very long.

During 2009, the domestic aviation market in Brazil had a market share of 72.8% of the total market in terms of PRK. The continued economic development and growth in Brazil in general and in Minas Gerais in particular will generate increased demand for regional air transport services. As such, it is believed that the long-term PROAERO capital expenditure program will include needed equipment that can be provided by U.S. suppliers.

U.S. firms may want to consider partnering with local construction companies for airport design, construction and improvement projects. There will also be opportunities to compete in the future provision of facilities and equipment at PROAERO airports.

As of 2009, only eight PROAERO airports had scheduled commercial airline service. Based on the expected development of the regional air transport sector in Minas Gerais and on the upcoming 2014 World Cup and 2016 Olympic Games in Brazil, more regional airports are expected to have scheduled airline service in the future. This airline service will drive investments in basic airfield lighting and safety and security equipment.

In addition to PROAERO future investments in airport infrastructure improvements, the long-term export potential for U.S. firms for facilities and equipment is approximately \$37 million.